

Message Text

SECRET

PAGE 01 STATE 094666

70

ORIGIN SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 INRE-00 CIAE-00 TRSE-00

(ISO) R

DRAFTED BY EB/IFD/OIA:WHCOURTNEY

APPROVED BY EB:TOENDERS

EB/IFD/OIA:MKENNEDY

ARA/CAR:JBURKE

L/EB:SBOND

S/S-O:G TWOHIE

ARA:JBKUBISCH

----- 007429

O 080119Z MAY 74

FM SECSTATE WASHDC

TO AMEMBASSY KINGSTON IMMEDIATE

S E C R E T STATE 094666

EXDIS

E.O. 11652:GDS

TAGS: EMIN, EFIN, US, JA

SUBJECT: BAUXITE NEGOTIATIONS

1. EAGLEBURGER, ENDERS, KUBISCH AND FELDMAN MET WITH AMB FLETCHER MAY 6 AT HIS REQUEST. FLETCHER SAID THAT IN DEFERENCE TO THE SECRETARY'S INTEREST, MANLEY IS PREPARED TO POSTPONE PRESENTATION OF THE GOJ BUDGET TO PARLIAMENT UNTIL MAY 16 IN ORDER TO GIVE THE SECRETARY THE OPPORTUNITY TO ADDRESS THIS MATTER IF HE DESIRES TO DO SO. THE JAMAICAN CABINET WAS TO MEET ON THIS POSTPONEMENT THAT EVENING. WE TOOK THE OPPORTUNITY TO EMPHASIZE THAT TO THIS POINT THE USG HAD NOT TAKEN A POSITION ON EITHER SIDE'S PROPOSALS, BUT THAT OUR JOINT INTERESTS ARE SO INTERRELATED THAT WE COULD NOT REMAIN INDIFFERENT TO A FAILURE OF NEGOTIATIONS. WE URGED RENEWED EFFORTS AT RESOLUTION.

SECRET

SECRET

PAGE 02 STATE 094666

2. IN MAY 6 CALL ON ENDERS, CUTLER/ROSE MADE THE

FOLLOWING POINTS ON THE DETAILS OF THE NEGOTIATIONS:

A. REVENUE NEGOTIATIONS ARE AT AN IMPASSE. MATALON SAID HE WOULD RECOMMEND THAT MANLEY DROP THE REVENUE DEMAND TO DOLS. 180 MILLION (7.5 PERCENT OF INGOT PRICE, DOWN FROM 8.75 PERCENT), AND ANY LEGISLATION WOULD BE

BASED ON THIS AMOUNT. THE COMPANIES' MOST RECENT OFFER IS DOLS. 79 MILLION, BASED ON CURRENT OUTPUT LEVELS OF 15.4 MILLION TONS.

B. THERE ARE TWO BASIC PROBLEMS: (1) TAX LEVELS - THE COMPANIES DON'T SEE HOW THEY CAN GO ABOVE DOLS.5/ TON OF BAUXITE. THE GOJ'S PROPOSAL IS SO HIGH THAT EVEN IF THE INDUSTRY'S HIGH FIRST QUARTER EARNINGS WERE PROJECTED OVER THE FUTURE, THE GOJ WOULD TAKE OVER 60 PERCENT OF THE COMPANIES' BEFORE-TAX EARNINGS. (2) TAX ESCALATION - HOW TO ADJUST TAX LEVELS FOR PROFITS, RATES OF RETURN, COMPARATIVE COSTS OF BAUXITE FROM OTHER SOURCES, OR PERHAPS CAPACITY UTILIZATION (WHICH THE COMPANIES THIN MIGHT BE A BETTER MEASURE OF GOOD AND BAD YEARS). CUTLER EMPHASIZED THAT THERE IS NO CORRELATION BETWEEN SALES, REALIZED PRICES AND PROFITS, AND THEREFORE REVENUES SHOULD NOT BE KEYED TO PRICES. FOR THESE REASONS, THE COMPANIES DO NOT LIKE ESCALATION PROVISIONS, AND MATALON HAS INDICATED THIS WAS THE MOST NEGOTIABLE ASPECT OF THE GOJ'S PROPOSAL. THE COMPANIES PREFER A CONSTANT TAX PERCENTAGE EXCEPT FOR SOME (DE)ESCALATION DEPENDING ON HOW WELL THE INDUSTRY IS DOING. HE ADMITTED THAT REVENUES SHOULD COMPENSATE FOR OVERALL INFLATION.

C. THE GOJ'S CASE IS BASED ON ITS ESTIMATES OF THE PROSPECTS FOR THE INDUSTRY (PERHAPS BY EXTRAPOLATING

1973 AND FIRST QUARTER OF 1974 PERFORMANCE FOREVER) BUT IT REFUSES TO SHOW ESTIMATES TO THE INDUSTRY. THE COMPANIES ARE RELUCTANT TO SHOW THEIR ESTIMATES FOR 1974 TO THE GOJ BECAUSE OF THE GREAT UNCERTAINTY ABOUT PRICES AND COST INCREASES, WITH MARGINS OF ERROR OF
SECRET

SECRET

PAGE 03 STATE 094666

PERHAPS 50-100 PERCENT. CUTLER ADDED THAT THE ECONOMISTS SAY THAT HISTORICAL RATES OF RETURN ARE THE

BEST GUIDE TO THE FUTURE, AND THAT NO INDUSTRY HAS EVER PERMANENTLY DOUBLED ITS RATE OF RETURN, WHICH IS WHAT WOULD BE NEEDED IF THE JAMAICAN PROPOSAL WERE TO BE ADOPTED.

D. THE COMPANIES HAVE OFFERED THE PROSPECT OF ADDITIONAL ALUMINA EXPANSION (PERHAPS THREE MILLION TONS), AND RECEIVED TWO REACTIONS: THE GOJ IS QUITE INTERESTED IN ADDITIONAL INVESTMENT (ALTHOUGH LEERY OF THE POLLUTION SIDE-EFFECTS), BUT IT DOES NOT WANT TO SACRIFICE THE BASIC REVENUE DEMANDS IN ORDER TO GET THE INVESTMENT. CUTLER ADDED THAT A DECISION ON EXPANSION WAS NOT

POSSIBLE IN A SHORT TIME FRAME.

2. ON THE PROSPECTS FOR THE FUTURE, CUTLER SAID THAT THE COURSE OF EVENTS DEPENDS ON WHAT HAPPENS THIS WEEK AND ON WHAT THE SECRETARY DOES ON HIS RETURN, BUT THAT IF NOTHING IS DONE THE GOJ MAY WELL DECIDE TO TAKE LEGISLATIVE ACTION. HE ASKED THE DEPT TO:

- ASSIST IN OBTAINING A NEUTRAL MEDIATOR, IF NECESSARY. HE SAID THE MEDIATOR SHOULD BRING THE PARTIES TOGETHER BUT NOT RECOMMEND A SPECIFIC SOLUTION.

- TELL THE GOJ THAT IF IT DOES NOT TAKE THE LEGISLATIVE ROUTE THE COMPANIES WOULD NOT TAKE THEIR CASE TO ICSID. HE NOTED THAT SUCH LITIGATION WOULD MAKE PARTIES ANGRIER.

HE SAID THAT IF LEGISLATION DID COME ABOUT THE COMPANIES WOULD, HE THOUGHT, PAY THE TAXES BUT UNDER PROTEST, AND THE COMPANIES FEEL THAT THEY WOULD HAVE TO COMMENCE ICSID PROCEEDINGS.

3. WITH FLETCHER'S AGREEMENT, ENDERS SAID THAT THE

JAMAICAN CABINET WOULD MEET EVENING OF MAY 6 AND PROBABLY
SECRET

SECRET

PAGE 04 STATE 094666

WOULD POSTPONE BUDGET LEGISLATION UNTIL MAY 16. ENDERS ADDED THAT OUR JUDGMENT IS THAT THE DEADLINE IS HARDENING AND SHOULD BE TAKEN SERIOUSLY. ENDERS POINTED OUT THAT, AS THE COMPANIES REALIZED, THE SECRETARY IS NOT IN A POSITION TO INTERVENE IN THE NEGOTIATIONS PER SE. ENDERS OBSERVED THAT MANY U.S. INTERESTS ARE INVOLVED, INCLUDING THE PRICE OF ALUMINUM TO U.S. CONSUMERS, THE PROTECTION OF THE COMPANIES' NET INCOME WHICH ENABLES FUTURE EXPANSION, AND THIS COUNTRY'S BILATERAL RELATIONS WITH JAMAICA. THE USG IS INTERESTED, HE SAID, IN THE CONTINUATION OF THE NEGOTIATIONS AND IN THE AVOIDANCE OF PRECIPITOUS ACTIONS BY EITHER PARTY. ENDERS SAID THE USG WAS WILLING TO PLAY A FACILITATIVE ROLE BUT DOES NOT WANT TO GET INVOLVED IN THE SUBSTANCE OF THE PROPOSALS. HE ASKED CUTLER/ROSE TO CALL AGAIN

TOMORROW (MAY 7) AFTER THE MEETING OF COMPANY PRINCIPALS THAT EVENING.

4. IN THEIR MAY 7 CALL ON ENDERS, CUTLER/ROSE, ALONG WITH CORNELL MEIER OF KAISER, REPORTED THAT THE PRINCIPALS SEE AN INTERIM AGREEMENT AS THE BEST ALTERNATIVE. CUTLER SAID A THREE YEAR AGREEMENT (TAKING

THE TERMINATION BEYOND THE ELECTIONS) MIGHT BE BEST, AND IT WOULD HAVE TO BE BASED ON THE COMPANIES' MOST RECENT PROPOSAL. (HE SAW A ONE YEAR AGREEMENT AS NEXT BEST, AND A TWO YEAR AGREEMENT AS WORST, TERMINATING JUST BEFORE ELECTIONS). CUTLER SAID THIS WOULD GIVE EVERYONE TIME TO SEE WHETHER LAST YEAR'S TURNAROUND IN THE INDUSTRY WOULD PERSIST, AND TO WATCH THE DEVELOPMENT OF THE IBA. IN THE MEANTIME WORK COULD GO FORWARD ON EXPANSION DECISIONS AND ECONOMIC ANALYSIS. HE ADDED THAT THIS SOLUTION WOULD HAVE A FEW POLITICAL PLUSES FOR MANLEY.

5. CUTLER SAID THE COMPANIES BELIEVE THAT THIS SOLUTION SHOULD BE PUT DIRECTLY TO MANLEY BY SOME CEOS (MEIER, HARPER), OR BY ALL, DEPENDING ON MANLEY'S PREFERENCE, AND AT A DATE SET BY MANLEY. BECAUSE OF THE DYNAMICS BETWEEN COMPANY AND GOVERNMENT NEGOTIATORS, THE COMPANIES

SECRET

SECRET

PAGE 05 STATE 094666

BELIEVE THAT THE USG COULD MOST EFFECTIVELY SUGGEST THE MEETING WITH MANLEY. HE ASKED ENDERS IF THE DEPARTMENT WOULD DO THIS, IN THE CONTEXT OF THE USG'S POLICY TO SEE NEGOTIATIONS CONTINUE AND THE FACT THAT MANLEY HIMSELF INITIATED NEGOTIATIONS IN MARCH. HE SAID THAT MANLEY SHOULD NOT THINK THAT SUCH A MEETING PORTENDED ANOTHER SUBSTANTIAL CONCESSION FROM THE COMPANIES.

6. ENDERS SAID THE DEPT WOULD CONSIDER THIS REQUEST AND HE WOULD BE IN TOUCH. HE NOTED THAT IF THE USG DID MAKE THIS SUGGESTION IT SHOULD MAKE CLEAR THAT IT IS UNAWARE OF THE COMPANIES' EXPECTED POSITION ON SUBSTANCE.

7. THIS AFTERNOON KUBISCH CALLED FLETCHER AND MADE THE FOLLOWING POINTS: (A) WHILE APPRECIATING JAMAICA'S DESIRE FOR MORE REVENUES, WE HAVE NOT BECOME INVOLVED IN NEGOTIATIONS BUT ARE BECOMING INCREASINGLY CONCERNED ABOUT THE TWO PARTIES' FAILURE TO REACH AN AGREEMENT. (B) WHILE THE SECRETARY CANNOT BECOME PERSONALLY INVOLVED IN THE NEGOTIATIONS, WE URGE THAT A MAJOR EFFORT BE MADE NOW TO REACH AGREEMENT. (C) WE BELIEVE THAT THERE COULD BE A TOP LEVEL MEETING BETWEEN ONE OR

MORE OF THE CEOS AND MANLEY, AND THAT THEY WOULD BE RECEPTIVE TO SUCH A MEETING. PERHAPS THERE COULD BE A SHORT-TERM OR SOME KIND OF PROVISIONAL AGREEMENT. (D) THE IMPORTANT THING IS TO REACH A NEGOTIATED AGREEMENT, AND IF THIS REQUIRES MORE TIME THAN AVAILABLE PRIOR TO MAY 16, WE STRONGLY URGE THAT THE GOJ TAKE STEPS TO MAKE IT AVAILABLE. (E) ANY NEW PRICING RESULTING

FROM THE NEGOTIATIONS WILL HAVE DIRECT AND INDIRECT EFFECTS ON THE U.S. ECONOMY, AND ON THE PRICING AND SUPPLY OF OTHER IMPORTANT BASIC PRODUCTS AND COMMODITIES WORLD-WIDE. (F) ESPECIALLY GIVEN THE STRUCTURE OF U.S. INVESTMENTS ABROAD, A UNILATERALLY IMPOSED SOLUTION BY THE GOJ WOULD BE SURE TO PROVOKE A STRONG REACTION IN U.S. BUSINESS CIRCLES, AS WELL AS WITH U.S. PUBLIC OPINION AND CONGRESS. IT WOULD NOT BE POSSIBLE FOR THE USG TO REMAIN INDIFFERENT TO OR ALOOF FROM SUCH A DEVELOPMENT. NOR WOULD THE EXECUTIVE BRANCH HAVE IN ITS POWER THE ABILITY TO CONTROL ALL OF THE REPERCUSSIONS
SECRET

SECRET

PAGE 06 STATE 094666

THAT WOULD FLOW FROM SUCH A DEVELOPMENT. FLETCHER SAID HE WOULD RETURN TO KINGSTON TOMORROW AND SEE MANLEY IMMEDIATELY AFTER HIS ARRIVAL. RUSH

SECRET

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BAUXITE, LAW, NEGOTIATIONS, FOREIGN POLICY POSITION, PROPOSALS (BID), REVENUE DATA, MINING INDUSTRY, LEGISLATIVE RELATIONS, DIPLOMATIC DISCUSSIONS, MEETING PROCEEDINGS, CENTRAL GOVERNMENT TAXES, GOVERNMENT REVENUES
Control Number: n/a
Copy: SINGLE
Draft Date: 08 MAY 1974
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GarlanWA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE094666
Document Source: CORE
Document Unique ID: 00
Drafter: WHCOURTNEY
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740117-0843, D740110-1053
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740564/aaaacfgb.tel
Line Count: 251
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN SS
Original Classification: SECRET
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: EXDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GarlanWA
Review Comment: n/a
Review Content Flags:
Review Date: 17 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17 SEP 2002 by kellew0>; APPROVED <05 FEB 2003 by GarlanWA>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BAUXITE NEGOTIATIONS
TAGS: EMIN, EFIN, US, JA, JM, (EAGLEBUGER), (ENDERS), (KUBISCH), (FELDMAN), (FLETCHER), (MANLEY)
To: KINGSTON
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005